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# Old and Poor in America

## Preface

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Large numbers of older people live in poverty throughout the world. The reasons for their plight should be cause for considerable concern, because in twenty years about 20 percent of the world's population will be 65 and older. Specific issues and resolutions vary from nation to nation, with great challenges seen in developing nations. This ILC Issue Brief discusses America's aging poor. Future briefs will address the special problems of poverty among older people in developing nations.

In many developed countries, people are considered poor if they fall below 50 percent of the national median income. In the United States we have a far stricter definition, and older people have to be even poorer than younger people to qualify as "poor". Moreover, many older people have incomes that hover just above the official poverty line. Particularly disquieting is the situation of older women who are disadvantaged economically, with widows and divorcees representing the most vulnerable group.

According to the U.S. Census Bureau, the stringently defined poverty rate of people over 65 has dropped to 10.2 percent in 2000, or 3.36 million people. For the past few decades this rate has been declining, from almost 30 percent (5.4 million people) in 1967 to the current low. This is impressive, but it does not reflect the actual economically fragile situation of many of our nation's older people. *Old and Poor in America* examines the data, and demonstrates that our nation does not ensure adequate retirement income security for older people.

The baby boom generation has a vested interest in influencing the success with which our nation addresses the condition of its aging poor, because at the same time as they care for their aging parents, they are beginning to look to the future and plan for their own later years. The International Longevity Center believes that the economic status of older Americans must become part of the national conversation. It takes on added urgency as proposals for major changes in Social Security—such as partial privatization—are evaluated.

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## Quick Background

Each year the United States Census Bureau calculates the number of people in this country who live in poverty, using a statistic called the “poverty threshold” (referred to in this Brief as the “poverty line”). If total income—excluding some government benefits like food stamps—is below a defined amount, then the individual or family is considered poor. In 2000, all older people with annual income below \$8,259, or couples with income below \$10,409 were defined as poor.

Mollie Orshansky of the Social Security Administration devised the poverty line in the early 1960s. She based her calculation upon the cost of an Economy Food Plan developed by the Department of Agriculture, which she adjusted for family size. The poverty line basically reflects the cost of a minimum diet multiplied by a factor of three, to allow for expenditures for other goods and services. It is updated annually for inflation based upon the consumer price index (CPI).

The poverty line calculations presume that older people need to spend less on food than younger people. It also makes assumptions about food preparation and storage capability. Most important, the poverty line generalizes about people’s nutritional needs, particularly those of older people. These assumptions are dubious at best. Adequate nutrition is key to the mental and physical well being of all people, and it is erroneous to assume that older people can, or indeed, should, spend less. In fact, they often have special requirements that can have a significant impact on a food budget.

Other expenses for older people are not adequately considered. They include health care costs not covered by Medicare, notably medications; transportation costs for older persons with disabilities; and appropriate clothing. As it currently exists, the poverty line represents a failure to recognize extra needs of older people. It also reflects an acceptance of restrictions on their involvement in the life of the community.

## A different poverty line for older people

### **People over 65 must be poorer to be counted as poor.**

The official poverty line makes a distinction between the over - and under-65 populations. For example, the poverty line in 2000 for a person under 65 living alone is \$8,959, but it drops to \$8,259 for someone over 65. For two-person households, the poverty threshold is \$11,531 for those under 65 and \$10,409 for people over 65. In other words, older Americans living alone must be about 8 percent poorer than people under 65 to be counted as “poor”, and couples must be about 10 percent poorer.

## Older people near the poverty line

### **Older Americans are more likely than younger people to be clustered just above the poverty line.**

If one looks at the older population that lives within 125 percent of the poverty line—an annual income of \$10,324 for one person and \$13,011 for two—the percentage of people living in poverty or near-poverty rises to 16.9 percent, or 5.6 million people.

If the poverty line is simply raised by 25 percent, the number of older people living in economically dire circumstances increases by 66 percent. It is important to note that this trend does not apply to the rest of

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the population. For the overall population, an increase of 25 percent in the line results in a 40 percent increase in the number of people who are poor or near poor. Older Americans are unique in that so many live just above the poverty line.

### **The situation of older women**

**One fifth of all women over 65 who live alone are below the poverty line and a third are below 125 percent of the poverty line.**

Older women, particularly widows, face the likelihood of living in poverty as they grow old. Women live almost 6 years longer than men, and account for almost 60 percent of the population over 65. Overall, older women had a higher rate of poverty than men in 2000, at 12.2 percent and 7.5 percent, respectively. Poverty rates among the older population are highest for women who are divorced, never married, and widowed—roughly 20 percent in each category. Moreover, 70 percent of all older people living in poverty are women.

### **The situation of minorities**

**Twenty-two percent of the older African-American population and 18.8 percent of older Hispanics were considered poor in 2000.**

If we include all older African - Americans whose income is at 125 percent of the poverty line (\$10,324 for one person and \$13,011 for two), or below, about a third, 31.4 percent, are poor or near poor. A similar proportion of people of Hispanic descent (30.4 percent) live in a comparable economic situation. As our nation's older population grows increasingly diverse, these racial disparities are cause for concern.

### **The situation of the oldest-old**

**The fastest growing segment of the older population is comprised of people 85 and older. Of this population, 13.7 percent live below the poverty line.**

People over 85 tend to be in poorer health than people in younger age groups, are least likely to be engaged in any kind of paid employment, and tend to be more isolated. In addition, they are very likely to deplete any savings they accumulated over their lifetimes. Oftentimes, their only asset is a home, which can fall into a state of disrepair if they do not have money for maintenance and repairs, or the physical capabilities to do their own repairs.

### **Accuracy of the poverty line**

**The poverty line is not an accurate measure of the actual deprivation of older people.**

As was stated above, the poverty line calculation is based on the cost of food, adjusted for inflation. It does not realistically reflect health care and other costs. Nor does it take into account the dramatically increased standard of living and changing expectations that have occurred over the last 40 years. For example, in our current society it seems reasonable to expect older people to have access to a television and telephone.

The poverty line also does not account for geographic differences in the cost of living, especially the wide variations in housing costs across the country. An older person trying to live on \$10,000 a year in a large city like New York, San Francisco, or Chicago will experience significantly higher housing costs than someone who lives in a small town.

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New measurements for poverty are being considered by government agencies as well as organizations and concerned individuals. Prominent among them is The National Academy of Sciences, which has discussed the need to correct flaws in the official poverty measure and offered recommendations. In general, there is agreement that a higher proportion of older people should be considered poor, with most estimates above 13 percent. The Census Bureau issued a new publication that discusses these various measures, "Experimental Poverty Measures: 1999."

### Health and Poverty

**The poverty line does not account for the significantly higher health costs of older people compared to the rest of the population.**

Medicare beneficiaries over 65 spend an average of 19 percent of their income on out-of-pocket health expenses like premiums, deductibles, and items and services not covered by Medicare, notably prescription drugs. As people age, this proportion increases, with beneficiaries over 85 spending an average of 22 percent of their income on health care. The lower the income level of Medicare beneficiaries, the greater the proportion of income that is spent on health care.

As noted above, the situation of the poor and near poor is even more fragile than the numbers indicate. Despite programs in which indigent Medicare beneficiaries are eligible for Medicaid, older people on limited fixed incomes can be overwhelmed by health care costs, primarily those associated with chronic illnesses or major medical events. For example, if an older Medicare beneficiary who struggles to live on \$800 or \$900 a month develops pneumonia, the

out-of-pocket expenses can be devastating. As health care expenses continue to exceed the rate of inflation, this situation will worsen.

### Income Situation of Older People

**Contrary to popular notions, an examination of household and individual incomes reveals that our nation's older people are not an affluent segment of the population. Approximately 70 percent of older households have annual income below \$35,000 and almost 30 percent have income between just \$10,000 and \$20,000. The median income of all households over 65 was \$23,048 in 2000.**

The income of older people also varies considerably by race and gender. The median income of all individuals over 65 was \$13,739 in 2000. Caucasians had a slightly higher level at \$14,198, while African-Americans and people of Hispanic descent had much lower median incomes at \$10,528 and \$8,877, respectively. The median income of all women was \$10,899, compared to \$19,168 for men. Clearly, older people are not the "greedy geezers" that some suggest.

### Importance of Social Security

**Social Security provides a basic level of income support for older Americans. It is the primary source of income for 64 percent of beneficiaries.**

Social Security is a guaranteed source of inflation-protected, lifelong income. It pays benefits to over 90 percent of the older population. In fact, Social Security is the only source of income for 18 percent of the older population. Without Social Security, it is estimated that nearly half would live below the poverty line.

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## Conclusion

The poverty rate is at a historic low, but it is vulnerable to social and economic forces and could easily reverse.

**Older single women have the highest rates of poverty and the numbers of single women in American society is rising.** Although more women are in the workforce, they tend to earn less than men and their careers tend to be disrupted by child-rearing and other caregiving responsibilities. Women earn 74 percent of what men earn for comparable jobs. In addition, the high rate of divorce in our society raises legitimate questions about the financial security of women as they age.

**The use of defined contribution plans as opposed to traditional pension plans is rising.** Defined contribution plans are increasingly playing a primary role in providing retirement income (in addition to Social Security and private savings). It creates the potential for people to outlive their account funds and/or have their income linked to market fluctuations at the time of retirement, rather than the safety of an annuity program like Social Security. Proposals for reform of Social Security must take this into account.

**The size of the older minority population is increasing.** Minorities currently comprise about 16% of the over 65 population, and will increase to at least 25% over the next 25 years. We have seen that older minority populations are at much higher risk for poverty than the non-minority population, so the growing diversity of this age group could have an impact on the poverty line.

One final important point to remember is that older people, unlike younger individuals, are not likely to ever escape poverty. This is particularly true for people over 85. Their working years behind them, they are left with no practical path, such as education or job training programs, to improve their lives. As a result, these impoverished old people are doomed to spend their remaining days living in quiet deprivation.

Clearly, there are many factors that can affect future poverty rates. Education, ethnicity, gender, living arrangements and age group all contribute to an older individual's risk of being poor or near poor. Understanding the part these factors play in the level of well-being enjoyed by older people will help in devising remedies and evaluating success in reducing poverty.

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The International Longevity Center–USA (ILC–USA) is a not-for-profit, non-partisan research, education and policy organization whose mission is to help individuals and societies address longevity and population aging in positive and productive ways, and highlight older people's productivity and contributions to their families and society as a whole.

The organization is part of a multinational research and education consortium, which includes centers in the U.S., Japan, Great Britain, France and the Dominican Republic. These centers work both autonomously and collaboratively to study how greater life expectancy and increased proportions of older people impact nations around the world.

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